

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name White Cloud Sherman Utilities Authority	County Newaygo
Fiscal Year End 6/30/07	Opinion Date 10/11/07	Date Audit Report Submitted to State 10/15/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

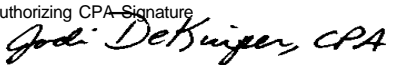
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES **NO** **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Internal Control Letter	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Hendon & Slate, P.C.		Telephone Number 231-924-6890	
Street Address 711 W. Main Street		City Fremont	State Zip MI 49412
Authorizing CPA Signature 	Printed Name Jodi DeKuiper, CPA		License Number 1101021180

**WHITE CLOUD/SHERMAN
UTILITIES AUTHORITY
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2007

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WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Board Members

Stanley Stroven, Sr.	Chairman
Dale Twing	Vice-Chairman
Richard Besser	Trustee
Ronald Carrozza	Trustee
Christine Tiernan	Trustee
Gail Hitts	Recording Secretary

H&S Companies

Hendon & Slate, PC
Certified Public Accountants
Business Consultants

Utility Authority Board
White Cloud/ShermanUtilities Authority
Newaygo County
White Cloud, MI 49349

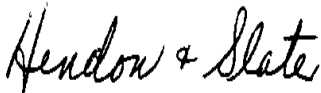
Independent Auditor's Report

We have audited the accompanying financial statements of the White Cloud/Sherman Utilities Authority, Newaygo County, Michigan, as of June 30, 2007 and for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the White Cloud/Sherman Utilities Authority, Newaygo County, Michigan, at June 30, 2007 and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. We did not examine this data and, accordingly, do not express an opinion thereon.



Hendon & Slate, P.C.
Certified Public Accountants
October 11, 2007

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WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2007

Using this Annual Report

This annual report consists of two parts - *management's discussion and analysis* (this section) and the *basic financial statements*. The basic financial statements include the following information:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Basic Financial Statements

The statement of net assets provides balances as of the end of the reporting period. The statement of revenues, expenses and changes in net assets provides information related to the activities of the Authority during the year. The statement of cash flows presents detailed information about the Authority's cash collections and disbursements. The notes to the basic financial statements explain some of the information in the financial statements and provide more detailed data.

Authority as a Whole

The White Cloud/Sherman Utilities Authority was organized to operate and maintain a sewage disposal system. The municipalities of the City of White Cloud and Sherman Township created the Authority.

The Authority's primary source of revenue is from user fees, representing 93% of total revenues. The user fee per quarter for the year ended June 30, 2007 was \$47.70 for residential users and \$47.70 times the assigned equivalent user factor for non-residential users. The Authority raised the rate from \$47.70 to \$49.00 which represented the first rate increase in many years. This increase was necessary to offset an increasing deficit between capital payoffs and debt requirements as well as the shortage between user fees and operating expenses. Without such a rate increase, the Authority would have had to continue to use their savings to meet debt requirements and pay operating expenses.

The Authority charges \$2,500, with a minimum \$750 down payment, for initial connections into the sewer system. The remaining balance may be financed by the Authority over 30 years at 6% interest. The Authority has passed a resolution (effective July 1, 2004) requiring the customer to pay the \$2,500 connection fee as well as being responsible for the fees to an independent contractor to make the connection. Previously, the Authority used the \$2,500 connection fee to pay the independent contractor for the connection. An additional provision of the new resolution makes lateral repairs and maintenance 100% the responsibility of the customer. Previously, the Authority covered the cost of necessary lateral repairs.

Management's Discussion and Analysis (Continued)

The table below contains key financial information in a condensed format between the current year and the prior year:

	<u>6/30/2007</u>	<u>6/30/2006</u>
Current Assets	\$ 436,964	\$ 452,377
Noncurrent Assets	<u>3,996,510</u>	<u>4,169,962</u>
Total Assets	<u>\$ 4,433,474</u>	<u>\$ 4,622,339</u>
Current Liabilities	\$ 63,703	\$ 70,521
Noncurrent Liabilities	<u>642,500</u>	<u>692,500</u>
Total Liabilities	<u>\$ 706,203</u>	<u>\$ 763,021</u>
Net Assets		
Invested in Capital Assets-Net of Debt	\$ 2,810,650	\$ 2,905,313
Unrestricted	<u>916,621</u>	<u>954,005</u>
Total Net Assets	<u>\$ 3,727,271</u>	<u>\$ 3,859,318</u>
Revenues		
User Fees	\$ 318,458	\$ 314,931
Other	<u>23,116</u>	<u>17,366</u>
Total Revenues	341,574	332,297
Expenses	<u>(473,621)</u>	<u>(478,595)</u>
Change in Net Assets	<u>\$ (132,047)</u>	<u>\$ (146,298)</u>

Governmental Activities

All of the Authority's financial information is for business-type activities. Therefore, no governmental activities are reported.

The Authority's Fund

The Authority uses an Enterprise Fund to account for the activities of its Sewer Fund.

General Fund Budgetary Highlights

The Authority uses an Enterprise Fund to account for the activities of its Sewer Fund. Budgetary requirements do not exist for Enterprise Funds as they do for governmental-type funds such as a General Fund. Therefore, no budgetary highlights are reported.

Debt Administration

At year end, the Authority has \$692,500 in notes outstanding. The debt resulted from the issuing of bonds for the purpose of creating the sewer system.

Management's Discussion and Analysis (Continued)

Additional information about the Authority's long-term debt obligation can be found in Note D on page 13 of this report.

Economic Factors

The Authority's financial position has been affected by the following factors: 1) The Authority's customer base remained consistent with prior years; 2) the flow rate decreased slightly compared to past years; 3) The possibility of a special assessment to hook in the remaining residents of the City that are not currently on the system, and 4) The resolution passed by the Authority effective July 1, 2004 regarding the changes to the connection fee and responsibility for repairs and maintenance will decrease the expenditures the Authority will be responsible for in future years.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, creditors and investors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Recording Secretary of the Authority, White Cloud/Sherman Utilities Authority, C/O Gail Hitts, 60 W. Baseline Road, P.O. Box 725, White Cloud, MI 49349.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Statement of Net Assets - Enterprise Fund June 30, 2007

ASSETS

Current Assets		
Cash and Cash Equivalents	\$	318,952
Accounts Receivable-Billings		85,344
Inventory		6,051
Prepaid Expenses		<u>26,617</u>
Total Current Assets		436,964
Noncurrent Assets		
Accounts Receivable-Tap Fees		493,360
Property, Plant and Equipment (at cost)	\$ 7,334,617	
Less: Accumulated Depreciation	<u>(3,831,467)</u>	
Net Property, Plant and Equipment		<u>3,503,150</u>
Total Noncurrent Assets		<u>3,996,510</u>
Total Assets		<u><u>\$ 4,433,474</u></u>

LIABILITIES

Current Liabilities		
Accounts Payable	\$	2,435
Accrued Compensated Absences		2,382
Accrued Wages		4,851
Accrued Retirement		978
Withholding Taxes Payable		3,057
Current Portion of Long-Term Debt		<u>50,000</u>
Total Current Liabilities		63,703
Noncurrent Liabilities		
Lease Payable-Net of Current Portion		<u>642,500</u>
Total Liabilities		706,203

NET ASSETS

Invested in Capital Assets-Net of Debt		2,810,650
Unrestricted		<u>916,621</u>
Total Net Assets		<u>3,727,271</u>
Total Liabilities and Net Assets		<u><u>\$ 4,433,474</u></u>

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Fund For the Fiscal Year Ended June 30, 2007

REVENUES

Sales	
City of White Cloud	\$ 204,810
Sherman Township	113,648
Fees and Penalties	6,849
Miscellaneous	<u>2,058</u>
 Total Revenues	 327,365

EXPENDITURES

Legislative Expenses	
Salaries	<u>4,750</u>
 Total Operating Expenses - Legislative	 4,750
 Operating Maintenance Expenses	
Salaries	48,685
Operating Supplies	11,137
Utilities	32,948
Repairs and Maintenance	22,653
Permits	3,730
Other Services	<u>1,193</u>
 Total Operating Maintenance Expenses	 120,346
 Depreciation Expense	 150,033

The Notes to the Financial Statements are an integral part of this statement.

Administrative and General Expenses	
Salaries	\$ 66,481
Taxes - FICA	9,242
Retirement	12,529
Health Insurance	35,442
Professional Services	3,950
Office Supplies	2,981
Insurance	27,502
Miscellaneous	1,073
Memberships & Training	1,255
Utilities and Paging	<u>2,037</u>
 Total Administrative and General Expenses	 <u>162,492</u>
 Total Operating Expenses	 <u>437,621</u>
 Operating Loss	 (110,256)
 NONOPERATING REVENUES (EXPENSES)	
Interest Earned on Investments	14,209
Interest Expense	<u>(36,000)</u>
 Total Nonoperating Revenues (Expenses)	 <u>(21,791)</u>
 Change in Net Assets	 (132,047)
 Net Assets - July 1, 2006	 <u>3,859,318</u>
 Net Assets - June 30, 2007	 <u><u>\$ 3,727,271</u></u>

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Statement of Cash Flows - Enterprise Fund For the Year Ended June 30, 2007

Cash Flows from Operating Activities:	
Cash Received from Operating Activities	\$ 48,725
Cash Flows from Non-Capital Financing Activities:	
Principal and Interest Paid on Debt	(86,000)
Cash Flows from Capital Financing Activities:	
Purchase of Capital Assets	(2,259)
Cash Flows from Investing Activities:	
Interest Income	<u>14,209</u>
Net Decrease in Cash and Cash Equivalents	(25,325)
Cash and Cash Equivalents at Beginning of Year	<u>344,277</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 318,952</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	\$ (110,256)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	150,033
Change in Assets and Liabilities:	
Increase in Accounts Receivable-Billings	(10,740)
Decrease in Accounts Receivable-Tap Fees	25,679
Decrease in Prepaid Expenses	828
Decrease in Accounts Payable	(2,415)
Decrease in Accrued Compensated Absences	(2,012)
Increase in Accrued Wages	1,124
Decrease in Accrued Retirement	(867)
Decrease in Withholding Taxes Payable	<u>(2,649)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 48,725</u></u>

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

Notes to the Financial Statements
For the Year Ended June 30, 2007

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of White Cloud/Sherman Utilities Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

In June 1999, the GASB issued Statement no. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. In 2003-2004 the Authority adopted this statement. Certain of the significant changes in the statement include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Authority's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statement).

The following is a summary of the significant accounting policies:

1. REPORTING ENTITY

The White Cloud/Sherman Utilities Authority is organized pursuant to the provisions of Act 233 PA 1955, as amended. The incorporating municipalities that created this Authority were the City of White Cloud and Sherman Township, which are designated as the Constituent Municipalities. The Authority is located in Newaygo County and its purpose is to provide sewer system services to the residents of the Constituent Municipalities. The Authority is governed by a six member Utility Authority Board appointed by the participating governments and is responsible for the operation of the Authority.

The Authority's financial statements include all activities of the Authority's operations. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Authority, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Authority's power and include, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Also, using the same criteria above, the Authority's financial statements include the accounts of all Authority operations.

2. There is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on this criteria, there are no other entities included in this report.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Enterprise funds use the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the costs (Expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. CAPITAL ASSETS

Capital Assets which include land and improvements, buildings and improvements and equipment are reported in the basic financial statements. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Machinery & Equipment	10 Years
Sewer System	50 Years

4. CASH AND EQUIVALENTS

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments, if any, with original maturities of three months or less from date of acquisition.

5. ACCOUNTS RECEIVABLE

Accounts receivable-billings represent services provided to customers within the service area. Delinquent utility billing are placed on the tax roll and are therefore considered to be ultimately collectible. Accounts receivable-tap fees represent amounts for original tap fees that have been financed by the Authority. The Authority permits the financing of these fees over 30 years at 6% interest.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

8. COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Authority employees are granted vacation and sick leave in varying amounts based on length on service. Upon termination, employees are paid accumulated vacation at full rates, but lose any unused sick leave. All vacation pay is accrued when incurred in the financial statements. A liability for this amount is reported on the enterprise fund balance sheet.

NOTE B DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's Board has designated five banks for the deposit of funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CD's, bankers' acceptances of United States banks, and mutual funds under the Investment Company Act of 1940, but not the remainder of State statutory authority as listed above.

The Authority's deposits and investment policy are in accordance with statutory authority.

The Authority's deposits are carried at cost and consisted of the following:

Notes to the Financial Statements (continued)

	Carrying Value	Market Value
Independent Bank of West Michigan		
Checking	\$ (3,658)	\$ 10
Savings-Reserve	6,075	6,075
Savings-Replacement	5,380	5,380
NOW Money Market	66,632	66,632
Choice One Bank		
Certificate of Deposit	5,346	5,346
State Farm Bank		
Certificate of Deposit	110,011	110,011
Fifth Third Bank		
Checking	19,717	19,717
Gerber Employees Federal Credit Union		
Savings	52,448	52,448
Savings	551	611
Certificate of Deposits	56,193	56,193
Petty Cash	257	257
Total Deposits	<u>\$ 318,952</u>	<u>\$ 322,680</u>
FDIC Insured	\$ 299,493	\$ 303,161
Uninsured	<u>19,459</u>	<u>19,519</u>
Total Deposits	<u>\$ 318,952</u>	<u>\$ 322,680</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market and cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investment in the funds comply with the investment authority noted above.

NOTE C RECEIVABLES

Receivables as of year-end are as follows:

Sewer Sales	\$ 62,381
Delinquent	22,963
Tap Fees	<u>493,360</u>
Total	<u>\$ 578,704</u>

The accounts receivable represent sewer sales to Customers in the Authority's service area. Customers are billed quarterly in advance for sewer services provided in the prior quarter.

Notes to the Financial Statements (continued)

The Authority's policy is to place delinquent sewer receivables on the property tax rolls each year. The monies are eventually received through the county tax revolving fund program. Because of this policy, the account balances are considered current and collectible.

NOTE D NEWAYGO COUNTY DPW REVENUE BONDS

The Authority has a capital lease with GMAC Commercial Mortgage Corporation for the purchase of the sewer system assets. The Authority pays the lease out of revenues of the system. For the current year, the Authority paid interest of \$36,000 on the outstanding debt. The original amount of the capital lease was \$2,100,000. The City of White Cloud and Sherman Township are ultimately responsible for the debt. In the event that the Authority is unable to make debt service payments, the debt would be the responsibility of the City and Township as follows. The debt will be retired in the year 2020.

City of White Cloud	26.40%
Sherman Township	<u>73.60%</u>
Total	<u><u>100.00%</u></u>

	<u>6/30/2006</u>	<u>Retired</u>	<u>6/30/2007</u>
Change in Debt	<u>\$ 742,500</u>	<u>\$ 50,000</u>	<u>\$ 692,500</u>

Amounts required to amortize the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/2007</u>	<u>Interest Payable If Held to Maturity</u>	<u>Amount of Annual Maturity</u>
2008	5%	\$ 50,000	\$ 35,000	\$ 85,000
2009	5%	50,000	32,500	82,500
2010	5%	50,000	30,000	80,000
2011	5%	50,000	27,500	77,500
2012	5%	50,000	25,000	75,000
2013-2020	5%	<u>442,500</u>	<u>78,000</u>	<u>520,500</u>
Total		<u>\$ 692,500</u>	<u>\$ 228,000</u>	<u>\$ 920,500</u>

NOTE E DEFINED CONTRIBUTION PENSION PLAN

The Authority provided pension benefits to all of its full-time employees through a 403(b) defined contribution plan until April 30, 2006. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Authority, the plan is funded by participants to the extent they elect to defer their compensation into the plan, and by a contribution from the Authority of 8% of each employee's gross regular-time wages. The Authority's contributions for each employee (plus interest allocated to the employee's account) are fully vested immediately upon deposit of the contribution by the Authority. During the year ended June 30, 2007 the Authority did not contribute to this plan on behalf of its employees. At May 1, 2006, this plan was replaced by a defined benefit pension plan.

NOTE F DEFINED BENEFIT PENSION PLAN

As of May 1, 2006 the Authority became a participant in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report the includes financial statements and required supplementary information for notes to the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, MI 48917-9755.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Authority's personnel policy, which does not require employees to contribute to the plan. The Authority is required to contribute at an actuarially determined rate; the rate was 10.53% as of May 1, 2006 until July 1, 2007 when the rate increases to 11.85%.

Notes to the Financial Statements (continued)

Annual Pension Cost - During the fiscal year ended June 30, 2007, the Authority's contributions totaling \$12,529 were made in accordance with contribution requirements. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increase of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2006 actuarial valuations. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 and GASB 27 Information - The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27.

<u>GASB 25 Information</u>	As of 12/31/2006
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ -
Terminated employees not yet receiving benefits	-
Current Employees	
Accumulated employee contributions including allocated investment income	53,419
Employer Financed	55,658
Total Actuarial Accrued Liability (b)	109,077
Net Assets Available for Benefits at Actuarial Value (Market Value is \$65,702) (a)	64,796
Unfunded (Over funded) Actuarial Accrued Liability	\$ 44,281

GASB 27 Information

Fiscal Year Beginning	July 1, 2008
Annual Required Contribution (ARC)	13,212
Amortized Factor Used	0.054719

Notes to the Financial Statements (continued)

Fiscal Period Ended	Trend Information		
	Ann. Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
June 30, 2007	\$ 12,529	100%	-

Schedule of Funding Progress						
Actuarial Valuation 12/31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a % of Covered Payroll ((b-a)/c)
2006	64,796	109,077	44,281	59.40%	111,505	39.71%

NOTE G DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits deferral of a portion of earnings until future years. The assets of the plan are held in trust, as described in Section 457 of the Internal Revenue Code for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators, Nationwide Retirement Services, are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Authority's financial statements.

It is the opinion of the Board that the Authority has no liability for losses under the plan but does have the duty of due care that would be required for an ordinary prudent investor.

NOTE H CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2007 were as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets not Being Depreciated				
Land	\$ 1,211	\$ -	\$ -	\$ 1,211
Capital Assets Being Depreciated				
Sewer Plant	7,234,028	-	-	7,234,028
Machinery and Equipment	97,118	2,260	-	99,378
Subtotal	7,331,146	2,260	-	7,333,406

Notes to the Financial Statements (continued)

Less Accumulated Depreciation for				
Sewer Plant	3,612,547	144,681	-	3,757,228
Machinery and Equipment	<u>68,887</u>	<u>5,352</u>	<u>-</u>	<u>74,239</u>
Subtotal	<u>3,681,434</u>	<u>150,033</u>	<u>-</u>	<u>3,831,467</u>
Net Capital Assets being depreciated	<u>3,649,712</u>	<u>(147,773)</u>	<u>-</u>	<u>3,501,939</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 3,650,923</u>	<u>\$ (147,773)</u>	<u>\$ -</u>	<u>\$ 3,503,150</u>

NOTE I RELATED PARTIES

The White Cloud/Sherman Utilities Authority is the agent for sewer services for both Sherman Township and the City of White Cloud.

NOTE J RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated.

H&S Companies

Hendon & Slate, PC
Certified Public Accountants
Business Consultants

October 5, 2007

Local Audit and Finance Division
Michigan Department of Treasury
P.O. Box 30728
Lansing, MI 48909-8228

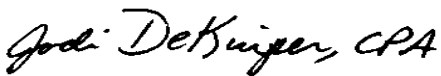
Gentlemen:

In connection with our audit of White Cloud/Sherman Utilities Authority, enclosed please find:

1. One (1) copy of our audit report for the fiscal year ended June 30, 2007.
2. One (1) copy of our report to the State Treasurer on auditing procedures.
3. One (1) copy of our letter of comments and recommendations.

Should any questions arise on the enclosed materials, please call upon us.

Respectfully submitted,



Jodi DeKuiper, CPA
Hendon & Slate, P.C.

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Hendon & Slate, PC
Certified Public Accountants
Business Consultants

October 11, 2007

White Cloud/Sherman Utilities Authority
60 W. Baseline Road
P.O. Box 725
White Cloud, MI 49349

Dear Board Members:

We have audited the financial statements of the White Cloud/Sherman Utilities Authority as of and for the year ended June 30, 2007. As part of our audit, we studied and evaluated the Authority's internal control. Because this study was only part of the overall audit plan, it is not intended to be a complete review of all your accounting procedures; and therefore, would not necessarily disclose all weaknesses in your system. Accordingly, we offer the following comments and recommendations.

ACCOUNTING SYSTEM/GENERAL LEDGER

We would again like to commend the billing clerk on the condition of the books and records. The records were balanced and very well maintained.

INVESTMENT POLICY

We noted that the Authority does not have an investment policy in place. Such a policy is required by the State of Michigan. Part of this requirement also includes providing a copy to the banks with which the Authority has investments. We have included a sample investment policy that may assist the Board in the adoption of their own policy. We recommend that the Board adopt an investment policy as soon as possible.

BILLING SYSTEM

Despite some recent improvements to the reporting functions of the billing system, we still feel the current system is not capable of providing the Board, as well as customers, complete and timely information. For example, if a customer asked for their payoff balance on their tap in fee, the amount could be determined, but not without a great deal of effort and time being spent by the billing clerk. The Authority should have a system in place to track each individual customer's balance and be able to access that balance with a standardized report. We understand that the Board

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October 11, 2007

Page 2

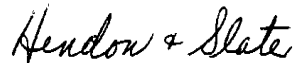
has discussed a new system at length and have begun researching various options. We encourage the Board to replace the current billing system with one more befitting of their needs.

USAGE RATE

Effective July 1, 2007, the Board approved a rate increase of \$1.30 per EUF from \$47.70 to \$49.00. The board had been considering a rate increase for some time in order to help cover the increasing deficit between operating revenues and operating expenses. We previously provided an analysis of breakeven rates and recommended that the Board increase the usage rate to \$50.82 per EUF instead of the \$47.70 per EUF that was currently being charged. The Board chose to make an increase to \$49.00 and to re-evaluate the effectiveness of the increase going forward. We suggest that the Board remain diligent in considering rate changes to cover their operating expenses with operating revenues. We would be happy to assist the Board with further analysis should it be deemed necessary or helpful.

We appreciate the courtesy extended to us during our audit. We will be happy to assist in the implementation of any of the recommendations set forth in this letter or to answer any questions regarding the audit.

This report is intended solely for the information and use of the Board and management of the White Cloud/Sherman Utilities Authority, this restriction is not intended to limit distribution of this report, which is a matter of public record.



Hendon & Slate, P.C.

Certified Public Accountants

H&S Companies

Hendon & Slate, PC
Certified Public Accountants
Business Consultants

White Cloud/Sherman Utilities Authority
60 W. Baseline Road
P.O. Box 725
White Cloud, MI 49349

Dear Board Members:

In planning and performing our audit of the financial statements of the White Cloud/Sherman Utilities Authority as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the White Cloud/Sherman Utilities Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Anti-Fraud Program

The Authority has not adopted an Anti-Fraud Program as required by SAS 99 (sample enclosed).

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Controls over Non-Routine and Non-Systematic Transactions

The Authority does not have controls in place whereby journal entries are reviewed by individuals independent of the person initiating the transactions.

Controls over Financial Statement Preparation

The Authority currently does not have personnel available with sufficient expertise to select and apply the accounting principles necessary to prepare the financial statements and note disclosures contained in the audit report.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

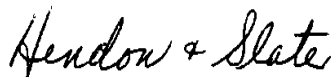
Controls over Financial Statement Preparation

The White Cloud/Sherman Utilities Authority's internal controls would not prevent or detect a material misstatement in the financial statements.

This communication is intended solely for the information and use of management, and the board of director's of the White Cloud/Sherman Utilities Authority and others within the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the courtesy extended to us during the audit. We look forward to a continued relationship with the White Cloud/Sherman Utilities Authority. If you have any questions regarding the audit report, this letter or any other communications, please do not hesitate to call.

Respectfully submitted,

A handwritten signature in cursive script that reads "Hendon & Slate".

Hendon & Slate, P.C.
Fremont, MI
October 11, 2007